

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
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R 291831Z MAR 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 7137
DEPARTMENT TREASURY
INFO AMEMBASSY PARIS
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL FRANKFURT
AMCONSUL HAMBURG
AMCONSUL MUNICH
AMCONSUL STUTTGART
USMISSION USBERLIN

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USOECD

E.O. 11652: N/A
TAGS: EFIN, ECON, GW
SUBJECT: INSTITUTES AND PRESS ON ECONOMIC SITUATION

REF: BONN 3696

1. SUMMARY. FRG'S FOURTH QUARTER ECONOMIC PERFORMANCE
TOGETHER WITH EVIDENCE THAT UPSWING CONTINUED IN
JANUARY EVOKED A MILD SURGE OF OPTIMISM AMONG PRIVATE
FORECASTERS DURING FIRST FEW WEEKS OF YEAR. MORE
RECENTLY, THOSE EXPECTATIONS HAVE BEEN DAMPENED BY
DISTURBANCES IN EXCHANGE MARKETS, BY UNCHARACTERISTICAL-
LY DISPUTATIOUS WAGE NEGOTIATIONS, AND BY FEARS OF
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WAGE-COST ESCALATION. ONE INSTITUTE PROPOSES MORE
INTERNATIONAL COOPERATION TO STABILIZE THE ECONOMIC
SITUATION, HENCE TO ASSURE THE FRG OF AN ENVIRONMENT
IN WHICH ECONOMIC EXPANSION CAN PROCEED SMOOTHLY.

2. IN ITS MARCH 23 REPORT, THE DIW (BERLIN) FOCUSES
PRINCIPALLY ON THE DEPRESSING IMPACT WHICH THE

UNCERTAINTIES OF THE EXTERNAL SITUATION COULD HAVE ON THE DOMESTIC ECONOMY. THE DIW OPINES THAT THE INDUSTRIALIZED COUNTRIES WILL HAVE TO STRENGTHEN THEIR EFFORTS TO ACHIEVE HARMONIZED GROWTH IF EXCHANGE MARKET SPECULATION IS TO BE DAMPENED AND CORRECTIONS MADE FOR AN UNDERVALUED DOLLAR AND FOR OVERVALUED DM, SWISS FRANC, AND YEN. AS FOR THE DOMESTIC ECONOMY, THE DIW RECOMMENDS AN EXPANSION OF DOMESTIC DEMAND -- PARTICULARLY A REVIVAL OF THE POLITICALLY STALLED ENERGY CONSERVATION INVESTMENT PROGRAM. TO LOWER THE FRG CURRENT ACCOUNT SURPLUS, DIW SUGGESTS EXPANDED GOVERNMENT-FINANCED STOCKPILING OF RAW MATERIALS.

3. IN ITS SEMIANNUAL REPORT, THE IW (KIEL) SEES INCIPIENT INDICATORS OF AN ECONOMIC UPSWING ENDANGERED BY THE UNCERTAINTIES FOR INVESTMENT ARISING OUT OF EXCHANGE RATE INSTABILITY AND TOO HIGH WAGE SETTLEMENTS. IW WRITES THAT STEADY, UNINTERRUPTED, NONINFLATIONARY GROWTH IN 1978 AND 1979 IS SCARCELY POSSIBLE ANY MORE. PRESUMABLY IW IS NOW BACKTRACKING FROM AN EARLIER FORECAST OF 3.5 PERCENT GNP EXPANSION FOR 1978. THE IW TAKES THE BUNDESBANK TO TASK FOR EXCESSIVELY EXPANSIONARY AND UNSTEADY MONETARY POLICIES AND PREDICTS AN INFLATIONARY SURGE TOWARDS THE END OF 1978.

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4. THE MARCH REPORT OF THE IFO-INSTITUTE (MUNICH) FINDS BUSINESS PESSIMISM ON THE RISE. ACCORDING TO ITS SURVEY OF THE INDUSTRIAL SECTOR, INDUSTRIAL ORDERS FELL (ALBEIT FROM A HIGH LEVEL) IN FEBRUARY FOR THE SECOND MONTH IN A ROW. MUCH OF THE GROWTH OPTIMISM HAD BEEN BASED ON A STEADY AND HIGH RATE OF GROWTH IN INDUSTRIAL ORDERS GOING BACK TO JULY 1977. THE SURVEY INDICATES FURTHER THAT FIRMS ARE NOT PLANNING ANY EXPANSION IN PRODUCTION DURING THE NEXT QUARTER. IFO PROJECTS A SHARP DOWNTURN IN THE RATE OF EXPANSION OF AUTO PRODUCTION IN 1978 (3 PERCENT), A SECTOR WHICH HAS HELPED SUSTAIN GROWTH FOR THE LAST TWO YEARS.

5. OFF ON A LIMB BY ITSELF, RIW (ESSEN) SNIFFS IN ITS MARCH REPORT AT THE IDEA THAT EXCHANGE RATE DISTURBANCES ARE A SOURCE OF FRG ECONOMIC PROBLEMS. RIW KNOCKS THE RECENTLY CONCLUDED US/FRG EXCHANGE MARKET ARRANGEMENTS AS SUCKING THE FRG INTO THE US INFLATIONARY WAKE AND RECOMMENDS WAGE RESTRAINT (NO MORE THAN 3.5 PERCENT ON THE AVERAGE) AND A POLICY OF STEADY MONETARY EXPANSION FOR STABLE GROWTH.

6. THE HWWA INSTITUTE (HAMBURG) IN ITS LATEST REPORT IMPLIES THAT DM APPRECIATION SHOULD HAVE LITTLE SHORT-TERM IMPACT ON FRG EXPORTS. HWWA WARNS, HOWEVER, AGAINST THE POSSIBILITY OF PROTECTIONIST

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BARRIERS BEING THROWN UP (ELSEWHERE) AS A DEFENSE
AGAINST EXCHANGE RATE APPRECIATION.

7. THE LABOR UNION SUPPORTED WSI (DUESSELDORF) RECENTLY REVISED ITS FORECAST FOR GNP GROWTH IN 1978 DOWNWARD FROM AN AUTUMN 1977 PROJECTION OF 3.5 PERCENT TO 3.0 PERCENT "UNDER THE BEST OF CIRCUMSTANCES". THE WSI HAS LOWERED ITS FORECAST OF WAGE AND SALARY INCOME GROWTH TO 6.5 PERCENT WHICH, HOWEVER, IS STILL ONE PERCENTAGE POINT HIGHER THAN THE "RECOMMENDED" MAXIMUM EMBRACED BY THE ECONOMIC MINISTRY. THE WSI'S SPONSOR, THE GERMAN FEDERATION OF LABOR

UNIONS (DGB) HAS STRONGLY ATTACKED THE NOTION THAT
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"EXCESSIVE" WAGE SETTLEMENTS ARE AN IMPEDIMENT TO
INVESTMENT AND EMPLOYMENT CREATION. PRESUMABLY ON
THE BASIS OF WSI RESEARCH, THE DGB STUDY NOT
SURPRISINGLY CONCLUDES THAT PLANT EXPANSION TAKES
PLACE ONLY IN STEP WITH EXPANDED DEMAND WHICH IS
BOOSTED BY HIGHER WAGES AND SALARIES.

8. THE MARCH ECONOMIC REPORT OF THE FRANKFURTER ALLGE-
MEINE (INDEP.) CHARACTERIZES THE ECONOMIC SITUATION
AS VULNERABLE NOTING IN THIS CONNECTION CONTINUED
CONSUMER RESTRAINT, THE JANUARY DOWNTURN IN ORDERS,
AND THE LACK OF EXTERNAL STIMULUS TO THE ECONOMY.
THE HANDELSBLATT'S (TRADE PAPER) ECONOMICS EDITOR
IN HIS MONTHLY REPORT ON THE ECONOMY COMMENTS
THAT NOT EVEN TWO PERCENT GNP GROWTH IS UNCONDITIONALLY
ASSURED.
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